

VZCZCXRO7767

PP RUEHAG RUEHAST RUEHDA RUEHDBU RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA
RUEHLN RUEHLZ RUEHPOD RUEHROV RUEHSR RUEHVK RUEHYG
DE RUEHMO #3369/01 1910910
ZNR UUUUU ZZH
P 100910Z JUL 07
FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC PRIORITY 1952
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEHDX/MOSCOW POLITICAL COLLECTIVE PRIORITY
RUEHBJ/AMEMBASSY BEIJING PRIORITY 4255
RHEHNSC/NSC WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 MOSCOW 003369

SIPDIS

SIPDIS
SENSITIVE

DEPT FOR EUR/RUS, EEB/ESC/IEC GALLOGLY AND GARVERICK, OES
MIOTKE AND COVINGTON, EAP YAMAMOTO, AND EEB SAEGER
DOE FOR HARBERT/EKIMOFF
DOC FOR 4231/IEP/EUR/JBROUGHNER
NSC FOR MCKIBBEN

E.O. 12958: N/A

TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [CVIS](#) [RS](#)

SUBJECT: RUSSIA ENERGY: SPECIAL REP. MERMOUD'S MEETINGS
WITH HALLIBURTON AND EXXONMOBIL

REF: MOSCOW 3161

11. (U) SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET
DISTRIBUTION.

12. (SBU) Summary: In a July 6 meeting with Special
Representative for Business and Commercial Affairs Frank
Mermoud, Halliburton Russia VP Simon Turton told us he sees
Russia as the most important growth market for Halliburton.
Halliburton hopes to triple business to \$1.5 billion over the
next two years, largely through acquisitions of local service
companies. Turton said one of his biggest challenges is
getting Russian visas for his international staff. In a
separate meeting with Mermoud, ExxonMobil Russia VP Ed Verona
told us his company is moving forward with negotiations to
sell 8 bcm of gas to China from its Sakhalin 1 project
despite public Gazprom claims that Gazprom should be the sole
export channel for all gas out of Russia (reftel). End
summary.

HALLIBURTON LOOKING TO GROW IN RUSSIA

13. (SBU) Halliburton Russia VP Simon Turton told us on July 6
that Halliburton is moving aggressively in Russia to grow its
share of the \$13 billion oil and gas field services market
from the current \$500 million to \$1.5 billion in 3 years.
Turton said the market, expected to grow to \$18 billion by
2011, is dominated by local firms, with international
companies having only a 15% share. Halliburton is targeting
local firms for acquisition, despite the fact that many such
deals have failed due to unacceptably shoddy bookkeeping by
local take-over targets.

14. (SBU) Turton described Russia as the most promising market
for Halliburton, noting that the incentive structure for
drilling in Russia would keep rigs active, even if a global
oil price drop halts projects elsewhere in the world. The
economic incentive of a given well is largely the same at any
price above \$27 a barrel, since companies get to keep little
of the price increase above that level as most of it goes to
the government. He said a limiting factor in Russia is the
lack of adequate personnel, causing up to half of Russia's
500 drilling rigs to sit idle. Halliburton is working with

Tyumen State University, which graduates thousands of engineers each year, to train workers in applying best practices. Halliburton then recruits the most promising graduates to add to its 1600-strong workforce in Russia.

15. (SBU) In response to Mermoud's comment on Halliburton's decision to move its legal headquarters to Dubai, Turton explained that the company is seeking to tap capital markets in the Middle East. He added that the company will likely go public in that region and may do so as well in Russia. He said doing business in Russia requires strong local relationships, which Halliburton is pursuing.

16. (SBU) International management practices and technologies are taking root, helping Russia exploit the vast untapped potential of East Siberia and Sakhalin. Russian technology is "not bad" but it is unreliable, according to Turton. He said Halliburton has established a technology-sharing alliance with Gazprom, even though Gazprom's "old-style, bureaucratic" tendencies make it an extremely difficult institution with which to do business. Gazprom will become busier in the coming years as it develops gas fields, and recognizes that it will need new technologies and equipment to do so. Halliburton, however, closely guards its latest and best technologies as a business advantage, preferring not to differentiate itself on price, but rather on technology and its ability to execute projects.

BIGGEST PROBLEM IS GETTING VISAS

17. (SBU) Surprisingly, Turton named a seemingly mundane problem as his greatest challenge -- getting visas for his

MOSCOW 00003369 002 OF 002

international staff to enter Russia. He explained that as an international company, Halliburton cannot issue the invitation letters required of visa applicants.

EXXONMOBIL LOOKING TO SELL GAS TO CHINA

18. (SBU) In a separate meeting with Mermoud, ExxonMobil VP Ed Verona said that despite some public claims by Gazprom and others that Gazprom is the sole authorized gas exporter, ExxonMobil is pursuing gas sales to China from Sakhalin 1 under its production sharing agreement (PSAs). As reported in reftel, ExxonMobil believes it is on firm legal ground given that the law granting Gazprom a gas export monopoly specifically excludes PSAs. ExxonMobil is planning on shipping 8 bcm of gas to China annually via a planned pipeline, but it is willing to entertain all "commercially acceptable offers," including from Gazprom. According to Verona, however, it would be difficult to come up with a more economically attractive option for Sakhalin 1 gas. He added that unlike Shell's Sakhalin 2 (environmental problems) and BP's Kovykta (contract performance), the Russian government would be hard pressed to find any excuse to force ExxonMobil's hand with regard to Sakhalin 1.

19. (SBU) Commenting on the large volume of press being given to a new law that allows Gazprom and Transneft to run their own armed units to protect their infrastructure, Verona suggested the idea was not unreasonable. He said the U.S. similarly allows armed guards for a variety of private protective details.

110. (SBU) This cable has been cleared by Special Representative Mermoud.
BURNS